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SUBJECT: UKRAINE: CHERNOMYRDIN CRASHES KYIV ENERGY
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¶1. (U) Summary. An animated Viktor Chernomyrdin, Russian Ambassador to Ukraine since 2001, provided a spirited presentation on Ukraine's energy sector on October 7 at the "Ukrainian Energy Forum," a three-day event organized by Adam Smith Conferences. According to Chernomyrdin, reliability is key for Russia in its gas relations with Ukraine. Referring to Ukraine's natural gas pipeline system, he said it needs at least \$1 billion of investment and that it would be a "heap of scrap metal" without gas supplies. The Russian-Ukrainian gas consortium, which was established in 2003 and aimed to manage Ukraine's extensive gas pipeline infrastructure with participation from European companies, should be re-energized. Ukraine in cooperation with Russia should take steps to complete the Bogorodchany-Uzhgorod gas pipeline; no progress has been made to-date. The Russian Ambassador said that if Ukraine wants to buy "more expensive," "lower quality" nuclear fuel from the U.S., so be it. Post assesses, however, that this statement about the cost and quality of Western-supplied nuclear fuel to Ukraine simply is not true. End summary.

Russia Seeks Reliability in its Gas Relations with Ukraine

¶2. (U) Russian Ambassador to Ukraine Viktor Chernomyrdin on October 7 presented his views on Russian-Ukrainian energy relations at an Adam Smith conference called "The Ukrainian Energy Forum." He said that Ukraine's gas transportation system is more than 40 years old, so Russia "needs to be careful." As much as \$1.5 billion is required to modernize Ukraine's gas infrastructure. The Russian Ambassador said that without gas supplies, Ukraine's gas pipeline system would be a "heap of scrap metal." Chernomyrdin added that the amount of gas Ukraine can transport across its territory varies between 112 billion cubic meters (bcm) and 120 bcm, and that the potential throughput capacity numbers quoted in the press (much higher than 120 bcm) are nonsense.

¶3. (U) Most important for Russia, according to Chernomyrdin, is the operation and management of Ukraine's gas pipeline system, which annually transports about 80 percent of the gas Russia sells to Europe. In 2003, the Russia-Ukraine gas consortium was formed, which aimed to better manage and improve Ukrainian gas infrastructure with participation from European companies. Chernomyrdin expressed regret that nothing had happened during the past five years to advance the consortium project.

Pipeline Projects: Ukraine Needs to Act

¶4. (U) Chernomyrdin, expressing his wish "not to hurt anyone's feelings," said that if Ukraine wants to use the Bogorodchany-Uzhgorod (B-U) gas pipeline project to boost transit volumes, it should act. Referring to smaller pipelines that would be used in the B-U project, he noted that they had been empty since the 1980s (Note: The B-U pipeline's capacity is expected to be 19 bcm; its cost currently is estimated to be \$560 million. End note.) Chernomyrdin noted that Russia and Ukraine had been talking for three years about the B-U project and encouraged the Ukrainian side to work with Russia to move the project forward.

¶5. (U) Regarding the Odessa-Brody oil pipeline, Chernomyrdin questioned why the \$500 million project was completed in the first place. Nevertheless, the reversal of the pipeline--using it to transport Russian crude oil south to Odessa--so far has netted Ukraine \$250 million. If Ukraine now aims to reverse Brody-Odessa, it should first secure the necessary crude oil supplies to fill the pipeline.

Chernomyrdin on Nuclear Fuel Supplies

¶6. (SBU) An incredulous Chernomyrdin said that if Ukraine wants to buy "more expensive," "lower-quality" nuclear fuel from the U.S., so be it. Post assesses that this statement is untrue. Under the US-Ukraine Nuclear Fuel Qualification Project (UNFQP), six fuel assemblies manufactured by

KYIV 00002008 002 OF 002

Westinghouse were supplied to the South Ukrainian Nuclear Power Plant (NPP) number 3 reactor in 2005. These fuel assemblies have been tested and inspected by U.S. and Ukrainian technical experts who for more than three years indicated that the fuel met safety and quality standards. Ukrainian nuclear utility (Energoatom) expressed its complete satisfaction with the operation, safety, and quality of these Westinghouse fuel assemblies after the physical inspection and analyses were conducted in September 2008. Under the the UNFQP, the U.S. will provide an additional 42 Westinghouse fuel assemblies in 2009 for operation in the South Ukraine NPP unit number 3. Regarding price, then Energoatom President Yuriy Kovryzhkin on March 30, 2008, publicly said that "Westinghouse fuel offers high quality and competitive prices." Russia, on the other hand, during the last three years has almost doubled the price it charges Ukraine for reprocessing and storing spent nuclear fuel from Ukraine's nine reactors. Post also believes that Russia has increased its prices of fresh nuclear fuel for Ukraine (Note: If Ukraine's fuel supplies are not diversified, Russia will continue to dominate Ukraine's nuclear sector, which generates almost half of Ukraine's electricity; Moscow also will dictate whatever prices and conditions it wants. End note)

Gazprom Executive on Russia-Ukraine Gas Negotiations

¶7. (U) Anatoliy Podmyshalskiy, General Director of Gazprom sbyt, a Ukraine-based subsidiary of Russian energy giant Gazprom that sells gas to industrial consumers in Ukraine, also attended the energy forum in Kyiv. He said that Gazprom may supply Russian instead of Central Asian gas to Ukraine next year because prices of Central Asian gas are likely to be much higher than the price Ukraine pays in 2009 for imported gas. Podmyshalskiy said that the numerous gas agreements Russia and Ukraine concluded in the past would need to be examined and then canceled to complete new agreements, which could remove gas intermediaries and allow Ukraine a three-year period to transition to European prices. He also noted that before removing gas intermediaries their debts to Gazprom would need to be settled.

